



Free Stock Pick from our Dividend Growth Model Portfolio for March 2025

"Liberation day" arrived and the announced tariffs were big. Markets reacted negatively, and the major indices recorded their worst single day declines in years.

The impacts of tariffs are yet to be fully seen, even if the immediate reaction of the market was a resounding "No" on tariffs.

The uncertainty of exactly when and how tariffs will be felt creates opportunity. Some of the best investors make hay in uncertainty, and the current market is giving us the best buying opportunities we've seen in years.

Don't get scared off by Wall Street fanning the flames of panic, know that your diligence allows you to outperform.

Diligence never goes out of style. We work hard to make the truth about earnings and valuation available to any kind of investor. Our proven-superior fundamental research gives you an edge that you can trust in this market.

Where else can you get anything like that?

To put our money where our mouth is, we're going to give you a free stock pick.

We scoured our proprietary database to identify a company that is growing its dividend and generates enough cash flows to cover its dividend payments. Stocks with growing dividends are a great way to protect a portfolio in uncertain times. Finding companies with the ability to grow their dividends can lead to a gold mine. That's exactly what our Dividend Growth Stocks Model Portfolio finds.

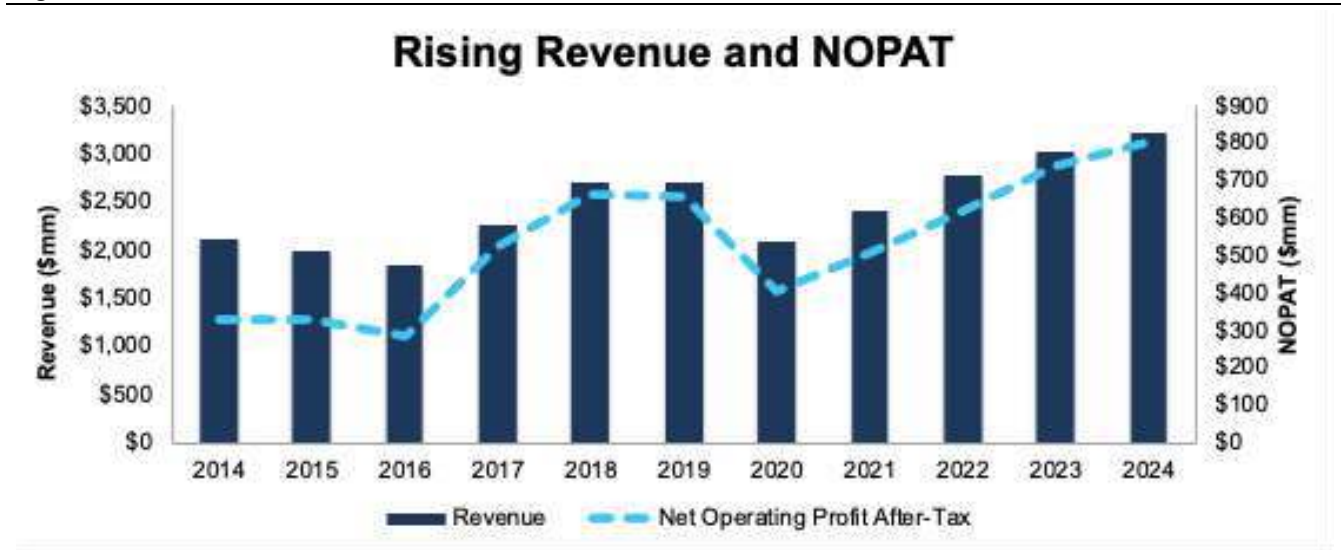
The report below features one stock from this Model Portfolio. It is not an in depth [Long Idea](#) report, but it will give you a good understanding of how our research combines fundamental research with expectations investing.

We hope you enjoy this free stock pick. Feel free to share this report with friends and colleagues.

We update this Model Portfolio monthly. March's [Dividend Growth Model Portfolio](#) was updated and published for clients on March 28, 2025.

Free Stock Feature March: Allison Transmission Holdings Inc (ALSN: \$99/share)

Allison Transmission has grown revenue and net operating profit after-tax ([NOPAT](#)) by 4% and 9% compounded annually, respectively, over the last decade. The company's NOPAT margin increased from 15% in 2014 to 25% in 2024, while [invested capital turns](#) rose from 0.5 to 0.8 over the same time. Rising NOPAT margins and invested capital turns drive return on invested capital ([ROIC](#)) from 8% in 2014 to 19% in 2024.

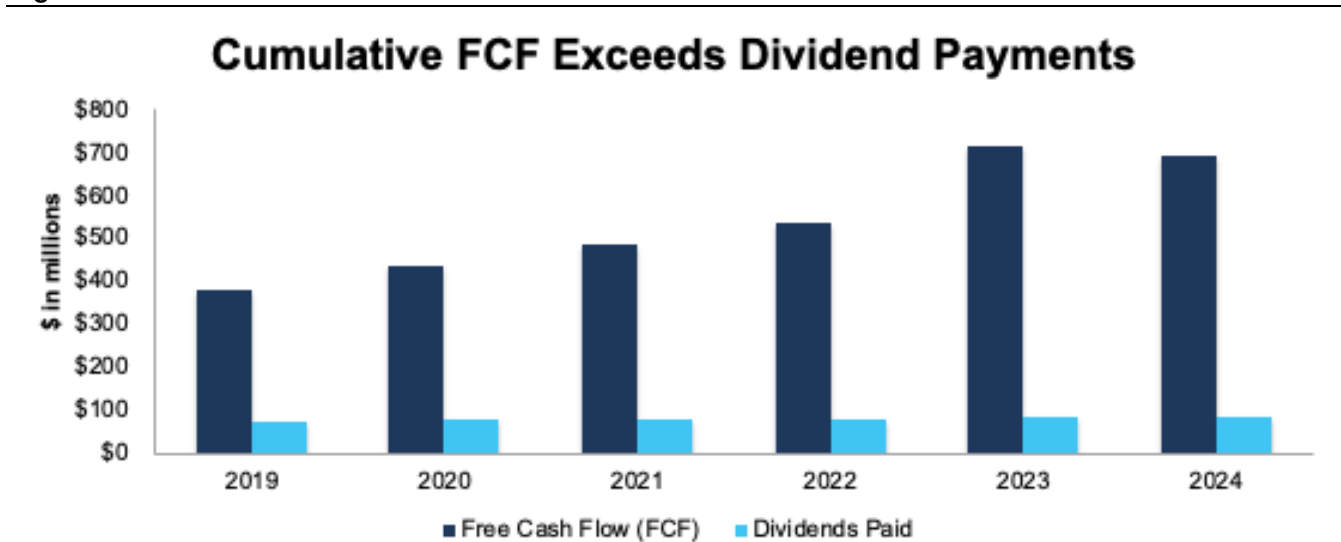
**Figure 1: Allison Transmission's Revenue & NOPAT Since 2014**

Sources: New Constructs, LLC and company filings

Free Cash Flow Supports Dividend Payments

Allison Transmission has increased its regular, quarterly dividend from \$0.15/share in 1Q19 to \$0.27/share in 1Q25. The quarterly dividend, when annualized, equals \$1.08/share and provides a 1.1% dividend yield.

More importantly, Allison Transmission's cumulative free cash flow ([FCF](#)) easily exceeds its dividend payments. From 2019 through 2024, Allison Transmission generated \$3.2 billion (31% of current [enterprise value](#)) in FCF while paying \$482 million in dividends. See Figure 2.

Figure 2: Allison Transmission's FCF vs. Dividends Since 2019

Sources: New Constructs, LLC and company filings

Companies with FCF well above dividend payments provide higher-quality dividend growth opportunities. On the other hand, dividends that exceed FCF cannot be trusted to grow or even be maintained.

ALSN Is Undervalued

At its current price of \$99/share, Allison Transmission has a price-to-economic book value ([PEBV](#)) ratio of 0.9. This ratio means the market expects Allison Transmission's NOPAT to permanently fall 10% from current levels.



This expectation seems overly pessimistic given that Allison Transmission has grown NOPAT by 4% and 9% compounded annually over the past five and ten years, respectively.

Even if Allison Transmission's:

- NOPAT margin falls to 21% (below five-year average of 22% and 2024 margin of 24%) and
- revenue grows 3% compounded annually (compared to 4% compounded annually over the last ten years) for the next decade,

the stock would be worth \$118/share today – a 19% upside. In this scenario, Allison Transmission's NOPAT would grow just 1% compounded annually through 2034. [Contact us for the math behind this reverse DCF scenario.](#)

Add in Allison Transmission's 1.1% dividend yield and a history of dividend growth, and it's clear why this stock is in March's Dividend Growth Stocks Model Portfolio.

Critical Details Found in Financial Filings by Our [Robo-Analyst Technology](#)

Below are specifics on the adjustments we make based on Robo-Analyst findings in Allison Transmission's 10-K:

Income Statement: we made just under \$150 million in adjustments with a net effect of removing over \$50 million in [non-operating expense](#). Clients can see all adjustments made to Allison Transmission's income statement on the GAAP Reconciliation tab on the Ratings page on our website.

Balance Sheet: we made just over \$2 billion in adjustments to calculate invested capital with a net decrease of over \$600 million. The most notable adjustment was for [deferred tax assets](#). See all adjustments made to Allison Transmission's balance sheet on the GAAP Reconciliation tab on the Ratings page on our website.

Valuation: we made just under \$4 billion in adjustments, with a net effect of decreasing shareholder value by over \$2 billion. Apart from [total debt](#), the most notable adjustment to shareholder value was for [excess cash](#). See all adjustments to Allison Transmission's valuation on the GAAP Reconciliation tab on the Ratings page on our website.

This article was originally published on [April 4, 2025](#).

Disclosure: David Trainer, Kyle Guske II, and Hakan Salt receive no compensation to write about any specific stock, style, or theme.

Questions on this report or others? Join our [online community](#) and connect with us directly.



It's Official: We Deliver the Best Fundamental Data in the World

Many firms claim their research is superior, but none of them can prove it with independent studies from highly-respected institutions as we can. Three different papers from both the public and private sectors show:

1. The stock market is missing footnotes – and only we have that critical data.
2. Legacy fundamental datasets suffer from significant inaccuracies, omissions, and biases.
3. Our proprietary drives novel alpha. Our measures of [Core Earnings](#) and [Earnings Distortion](#) materially improve stock picking and forecasting of profits.

Best Fundamental Data in the World

In [The Journal of Financial Economics](#), a top peer-reviewed journal, [Core Earnings: New Data & Evidence](#) proves our Robo-Analyst technology overcomes material shortcomings in legacy firms' data collection processes to provide superior [fundamental data](#), [earnings](#) models, and [research](#). More [details](#).

Key quotes from the paper:

- “[New Constructs’] *Total Adjustments* differs significantly from the items identified and excluded from Compustat’s adjusted earnings measures. For example... 50% to 70% of the variation in *Total Adjustments* is not explained by S&P Global’s (SPGI) *Adjustments* individually.” – pp. 14, 1st para.
- “A final source of differences [between New Constructs’ and S&P Global’s data] is due to data collection oversights...we identified cases where Compustat did not collect information relating to firms’ income that is useful in assessing core earnings.” – pp. 16, 2nd para.

Superior Models

Ernst & Young features the superiority of our ROIC, NOPAT and Invested Capital research to Capital IQ & Bloomberg’s in [Getting ROIC Right](#). See the [Appendix](#) for direct comparison details.

Key quotes from the paper:

- “...an accurate calculation of ROIC requires more diligence than often occurs in some of the common, off-the-shelf ROIC calculations. Only by scouring the footnotes and the MD&A [as New Constructs does] can investors get an accurate calculation of ROIC.” – pp. 8, 5th para.
- “The majority of the difference...comes from New Constructs’ machine learning approach, which leverages technology to calculate ROIC by applying accounting adjustments that may be buried deeply in the footnotes across thousands of companies.” – pp. 4, 2nd para.

Superior Stock Ratings

Robo-Analysts’ stock ratings outperform those from human analysts as shown in this [paper](#) from Harvard Business School. Bloomberg features the paper [here](#).

Key quotes from the paper:

- “the portfolios formed following the buy recommendations of Robo-Analysts earn abnormal returns that are statistically and economically significant.” – pp. 6, 3rd para.
- “Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts.” – pp. 20, 3rd para.

Our mission is to provide the best fundamental analysis of public and private businesses in the world and make it affordable for all investors, not just Wall Street insiders.

We believe every investor deserves to know the whole truth about the profitability and valuation of any company they consider for investment. More details on our cutting-edge technology and how we use it are [here](#).



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